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Boards in microfinance institutions: how do stakeholders matter?

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Abstract Microfinance Institutions provide financial services to poor people. Governance of these organizations is important so that they can operate efficiently and sustainably. This study analyzes the influence of stakeholders (donors, employees, customers, and creditors), on board structure (board size and CEO duality), and on organizational performance. We use a global data set of 379 microfinance institutions from 73 countries, collected from rating organizations. Supported by stakeholder theory, agency theory and resource dependence theory, we find stakeholders to be important and have various influences on microfinance institutions. We find donors to be associated with small boards, non-duality and better performance. Employees are associated with large boards, while customers are associated with duality and good financial performance. Creditors opt for duality and better social performance. Implications and areas for future research are discussed.

Keywords Microfinance institutions · Stakeholders · Board structure · Performance

JEL Classification G21 · G30

1 Introduction

Microfinance institutions (MFIs) provide financial services to poor families and microenterprises. Access to microfinance has the potential to help poor people

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smooth consumption, mitigate risks, build assets and improve income. The building of a self-sustaining microfinance industry is high on the policy agenda (Cull et al. 2009). Still, most MFIs struggle to keep afloat financially without subsidies. Various policy papers indicate the importance of governance to the performance of MFIs (Labie and Mersland 2011), and industry actors rate "governance" among the most important risk factors in the industry (CSFI 2011). However, relatively little is known on the empirical relation between governance structures and MFI performance. This study responds to the need for more knowledge on how stakeholders influence the board structure and performance of MFIs. Particularly, this study responds to Labie and Mersland (2011), who argue for a more stakeholder-based approach to determining "who" and "what" really count in the governance and performance of MFIs.

MFIs are private organizations incorporated as non-governmental organizations (NGOs), member-based cooperatives or banks[1] (Mersland 2009). This means that the stakeholders who are represented on boards may vary depending on the type of the MFI. In addition, Labie and Mersland (2011) suggest that good governance is not only based on the ability to ensure the sustainability of the organization, but also on strategic vision and transparency. The authors further suggest that this is possible when organizations adopt a stakeholder approach that includes the key actors in an organization. Thus, in this study we aim to answer three questions: (1) What is the representation of stakeholders across different types of MFIs? (2) To what extent do stakeholders affect an MFI's board structure? (3) What influence do stakeholders have on an MFI's performance?

Similarly to other board members, stakeholders on boards are responsible for monitoring and advising managers (Hillman et al. 2001). With MFIs' dual objective of serving the poor and becoming sustainable, it is suggested that boards play important roles. We use agency and resource dependence theories (Jensen and Meckling 1976; Pfeffer and Salancik 1978) to discuss the roles of board members. We also use stakeholder theory (Freeman 1984) to identify and discuss four types of stakeholder: donors, employees, customers and creditors.

Microfinance policy papers provide several recommendations on how boards of MFIs should be structured, in particular in terms of size and stakeholder representation. However, there is little knowledge of which stakeholders are represented, and how and where they are represented. Also, few empirical studies have examined the relation between stakeholders and performance in MFIs (Hartarska 2005; Hartarska and Mersland 2009). The findings of those few are inconclusive, and this justifies the need for more studies on stakeholder analysis. For example, Hartarska (2005) found that donors positively influence social performance, while Hartarska and Mersland (2009) found that they are not beneficial. Furthermore, these studies only examine the relation between stakeholders and performance. We argue that stakeholders may also influence board structure (CEO duality and board size). We therefore generally hypothesize that stakeholders on boards affect board structure and the performance of MFIs.

[1] The term bank includes both commercial banks and non-bank financial institutions.

We use data from public sources, containing 379 MFIs from 73 countries, collected between 2001 and 2008. We use a mixture of techniques to carry out the analysis. For MFI characteristics and board structure variables, we use ordinary least square regressions and probit regression. To tackle endogeneity concerns, we use a two-stage least square regression with instrumental variables to analyze the associations between stakeholders and performance.

The results show that stakeholders have various influences on both governance and MFI performance. We find donors and employees to be better represented in NGOs, creditors in banks and customers in cooperatives. We further find stakeholders to be associated with larger and internationally-initiated MFIs. In terms of board structure, we find donors to be associated with small boards and non-duality. Thus, the monitoring aspect seems to be important for donors. When donors interact with creditors, they also opt for small boards. Furthermore, we obtain evidence that donors and creditors positively affect MFIs' social and financial performance. Employees, as resource providers, are associated with large boards, but are not beneficial for MFI performance. We also show customers to be associated with duality, lower MFI costs and better financial performance. Similar evidence is seen when customers interact with employees.

The paper proceeds as follows. Section 2 presents theory, literature and hypotheses. Section 3 presents an overview of the dataset, variables and models. Section 4 presents stakeholder demographics, which is followed by a discussion of the board structure results in Section 5. Section 6 discusses the results relating to stakeholder influence on performance and Section 7 concludes.

2 Theory and literature

2.1 Boards and performance

Several studies on corporate governance focus on the relation between boards and organizational performance (Pugliesse and Wenstøp 2007; Johnson et al. 1996). Much of the focus has been placed on how board composition, size and CEO/Chair duality affect board members' roles and, ultimately, organizational performance (Elsayed 2011; Larmou and Vafeas 2010). An underlying assumption in this research is that boards matter; they have the power to affect an organization's decisions, strategies, and performance (Judge and Zeithaml 1992).

The roles of boards in executing governance responsibilities have been divided into two conceptual categories: monitoring and resource provision (Hillman and Dalziel 2003). The monitoring role charges board members with the responsibility for representing the interests of various stakeholders. Board members are expected to monitor actions of managers, as agents, and ensure that they act accordingly (Jensen and Meckling 1976). Board members' resource provision role involves advising the organization and linking it with key constituencies in its external environment (Pfeffer and Salancik 1978). Because the external environment of an organization is beyond its direct control, it experiences uncertainty. The presence of board members who represent critical contingencies is presumed to provide the

organization with access to valuable resources (Hillman et al. 2009). Members with backgrounds or positions representing important external resources may help the organization to reduce the transaction costs associated with external interdependencies and enhance organizational performance.

Board structure and composition are considered important factors influencing the performance of board roles (Lehn et al. 2009). Similar to Mersland and Strøm (2009), we examine board structure in terms of board size and CEO duality. According to agency theory, large boards are inefficient. They are not good monitors because of the problems that can arise from large groups, such as social loafing, free riding and higher coordination costs. Jensen (1993) for example argues that "When boards get beyond seven or eight people, they are less likely to function effectively and are easier for the CEO to control". Largeness can inhibit a board's ability to initiate strategic actions. Judge and Zeithaml (1992) report, that larger boards are less likely to become involved in strategic decision making. Yermack (1996) demonstrates that small boards are associated with higher performance. He concludes that any benefits that may be associated with large boards will be overwhelmed by poor decision-making processes. In contrast, resource dependence theory suggests that large boards bring higher organizational performance (Hillman et al. 2001; Pfeffer and Salancik 1978). From this point of view, board size is a measure of an organization's ability to form environmental links so as to secure critical resources. With access to different areas of expertise, CEOs get better advice from large boards. A larger board may offer an exceptional level of high-quality advice to a CEO and hence better performance.

CEO duality occurs when one person is both the CEO and the board chair of the organization (Rechner and Dalton 1991; McNulty et al. 2011). Organizational literature supports the idea of duality in terms of power and unity of command (McNulty et al. 2011). To effectively manage, it is necessary for a decision maker to have clear authority over his/her subordinates (Finkelstein and D'aven 1994). CEO duality helps to avoid confusion among employees as to who is the boss, which facilitates effective decision making. Non-duality creates multiple authority relations that promote role conflict among managers and employees. Agency theorists posit that duality can entrench a CEO, leading to failed internal control systems, and challenging a board's ability to monitor effectively (Mallette and Fowler 1992). Also, CEO duality represents a conflict of interests, in which a CEO who is responsible for the strategic management of an organization is also in a position to evaluate the effectiveness of that strategy (Finkelstein and D'aven 1994). These arguments suggest that some board members will not advocate CEO duality because doing so increases the potential for less effective monitoring, which may endanger organizational performance.

Few studies in the microfinance literature have examined the relation between board structure and MFI performance. Hartarska (2005) investigates the relation between governance and performance of MFIs in Eastern Europe. Among other governance mechanisms, she examines the impact of board size on the MFIs' performance. Her results indicate that MFIs with smaller boards achieve better performance. Mersland and Strøm (2009) examine the effect of MFI board size and CEO duality on MFI performance. Contrary to Hartarska (2005), they do not find

evidence that performance improves with smaller boards. Nor do they find evidence of the positive effect of CEO duality on performance. The authors conclude that it is hard to say whether MFIs are better governed when the CEO is also the board chair.

2.2 Board composition and the presence of stakeholders on boards

When included on boards, it is suggested that stakeholders perform a monitoring role and provide resources to CEOs and organizations (Hillman et al. 2009; Luoma and Goodstein 1999). Despite the fact that organizations mainly put stakeholders on boards as a way of showing how important they are, the organizations also benefit (Charreaux and Desbrieres 2001). Stakeholders enable organizations to access various resources, including providing links to other stakeholders. Stakeholder theory posits that, including stakeholder representatives on boards is a "formal mechanism that acknowledges the importance of their relation and interests with the organization" (Mitchell et al. 1997). That is, by including stakeholders on boards, organizations are signaling their commitment to stakeholders in a visible way (Freeman 1984). Since different stakeholders have different interests, their inclusion on boards may affect board structure and organizational performance differently.

Several studies have examined the influence of stakeholders on boards. Luoma and Goodstein (1999) study the relation between organizational influences and the addition of stakeholders to boards in the US. Their results show that regulated and larger organizations have more stakeholders on their boards than unregulated and smaller organizations. Their study provides important insights into the process by which board plurality is increased through the addition of stakeholders. Hartarska (2005) investigates the effects of the inclusion on MFI boards of three types of stakeholder-donors, employees and customers-on the social and financial performance of MFIs. Her findings show that boards with employees result in lower performance, boards with donors have better social performance, and those with customer representation have better financial performance. Hartarska and Mersland (2009) study which governance measures promote efficiency in reaching the poor. Their results show that MFIs with employees on their boards are less efficient. They also provide evidence that the presence of donors on boards is not efficient, while that of creditors is beneficial.

Together, these studies provide evidence that stakeholders are important for the boards and the performance of MFIs. However, none of these studies examine the relation between stakeholders and board structure (size and duality). Since a few studies have found stakeholders to affect organizational performance, we argue that this influence may be enacted through stakeholders' effects on board structure. We now develop hypotheses to examine the relations between stakeholders (donors, employees, customers and creditors), on the one hand, and board structure and MFI performance, on the other.

2.2.1 Donors

Donors are important actors through whom MFIs meet their dual objectives. Schreiner (2002) argues that donors are like genetic engineers, with the role of

speeding the evolution of MFIs. The literature, further shows that donors are good at providing funds, measuring progress, and spreading good practice through technical assistance (Schreiner 2002). As funders, donors need to monitor managers in order to ensure their funds are spent appropriately (Alonso et al. 2009). This means they would opt for a board structure that provides room for monitoring, that is, a small board and non-duality. In terms of performance, we infer that donors are more interested in social performance, since reaching the poor is part of their mission. Hartarska (2005) finds that the presence of donors on boards improves social performance. Other arguments posit that donors fund and assist MFIs, which demonstrates likelihood for financial sustainability. Furthermore, donors' objectives are to increase outreach to the poor. Thus, we expect to find that donors are associated with small and non-duality boards and we expect donors to positively influence MFIs' financial and social performance.

2.2.2 Employees

Corporate literature argues that employees are good at providing inside information to the board (Osterloh and Frey 2005). In microfinance, employees, particularly credit officers, are cornerstones of MFIs' operations (Mori 2010; Batillana and Dorado 2010). Employees on boards may bring relevant information because they are better informed about the issues and problems concerning the MFI, sometimes better so than the CEOs. However, because of employees' past experiences and different interests, they may bring biased information, which could mislead the board when making decisions. In addition, corporate literature suggests that employees on boards may not be good monitors of CEOs because of the fear they have of their bosses (Wagner et al. 1998). Employees on boards could also influence whether the CEO is also the chair, since working for one boss would simplify their lives (Finkelstein and D'aven 1994). Hartarska and Mersland (2009) show evidence of a negative association between MFIs boards with employees and performance. From these findings, it seems that employees are a good source of information for boards but monitor CEOs less closely than other stakeholders. Thus, we expect employees to be associated with large and duality boards. In terms of their information and monitoring roles, we do not hypothesize about their effect on performance.

2.2.3 Customers

Customers of microfinance are generally poor people with little education. Thus, one may claim that their representation on boards may not be influential since they cannot contribute effectively to technical discussions. However, microfinance customers know what they want and possess enough knowledge to make certain decisions (Pischke 2002). Furthermore, MFIs are increasingly operating as market-(customer-) driven and not only product-driven organizations (Woller 2002). With increased competition, customer drop-outs and multi-borrowing, customer orientation is increasingly important for MFIs. Woller (2002), for example, suggests that the key to achieving outreach and sustainability is the extent to which MFIs adopt a

market-oriented culture. Mersland and Strøm (2009) argue that customers help by providing better information and thus improve performance. Hartarska (2005) also finds that customers on boards improve financial performance. According to resource dependence theory, a board should be large in order to benefit from its members' resources; thus we expect customers to be associated with large boards. To our knowledge, there is no literature that argues in favor of associations between customers and duality and, therefore, we cannot stipulate their influence in this regard. We do however expect customer representation on boards to positively contribute to performance, in terms of the number of customers and sustainability.

2.2.4 Creditors

MFIs are increasingly shifting from donor to debt funding, and creditors represent an important stakeholder in the industry. In some cases, creditors become board members. Corporate literature shows that creditors on boards have two implications for organizations, through loans and accessibility of information (Agarwal and Elston 2001). As providers of debt, the creditors monitor the process of loan allocation to the organization. Their representation on boards also provides a strong channel of information to both parties. For example, the organization may benefit by knowing where and how to access finance. However, creditors on boards may cause a potential conflict of interest in relation to organizational financing decisions (Kroszner 2001). For example, the creditor may influence the management to avoid taking on certain projects because they could affect the organization's ability to repay the creditor. Hartarska and Mersland (2009) find creditors to be beneficial for MFI performance. The authors argue that, through monitoring, creditors can positively affect performance. Thus we expect MFIs with creditors on their boards to have small boards and non-duality and, based on agency theory, better performance.

2.2.5 Employees and customers

The marketing literature groups customers into two dimensions: internal and external (Lukas and Maignan 1996). It suggests that the internal customers are the employees of the organizations, while the external ones are those buying products/services from the organizations (Bowen 1996). We borrow this notion and want to look at the interaction effects of both employees and external customers on boards. Both possess valuable information for the MFI and the board. The nature of MFI activities requires employees to work closely with external customers (Batillana and Dorado 2010). We predict that, when both are represented on boards, the boards will be larger, and more resourceful, which will lead to better MFI performance.

2.2.6 Donors and creditors

Donors and creditors share the characteristic of being providers of funding to MFIs. The difference is that donors give funding in the form of grants, while creditors give loans. Despite this difference, they both wish to see the MFI monitored and the

Table 1 Stakeholders and hypotheses

Stakeholders	A. Board structure		B. Performance	
	Board size	CEO Duality	Social	Financial
1. Any-stakeholder	±	±	+	+
2. Donors	−	−	+	+
3. Employees	+	+	±	±
4. Customers	+	?	+	+
5. Creditors	−	−	+	+
6. Employees and customers	+	?	+	+
7. Donors and creditors	−	−	+	+

funds used wisely. Creditors need to recover their loans while donors wish to see their grants used properly. Interaction between donors and creditors seems to be important because of this shared characteristic. They both want the MFI to perform well. Therefore, we predict that boards with both creditors and donors represented will be small, have non-duality and high performance. Table 1 summarizes all of the hypotheses.

3 Data and methods

3.1 Data

The data were obtained from secondary public sources. The dataset was compiled from rating reports available at http://www.ratingfund2.org. These rating reports were collected by major microfinance rating agencies (MicroRate, Microfinanza, Planet Rating, Crisil and M-Cril) and contain information from the year 2001 to 2008. Each of the rating agencies is approved to rate and assess MFIs according to the Rating Fund of the Consultative Group to Assist the Poor (CGAP), which is a branch of the World Bank. Information included in the dataset comprises of governance and board variables, financial statements and risk management of MFIs. The dataset contains 379 MFIs from 73 countries worldwide. Since board-related issues are reported qualitatively, we also read the reports and identified whether any stakeholders were sitting on the respective boards. When no information was available we reported a blank.

The dataset is structured such that annual observations of performance variables are available for a maximum of five consecutive years. However, governance and organizational variables are reported only once. Following Mersland and Strøm (2009), we assume all variables to be constant over the whole period since these are variables which do not change frequently. Because of geographical and governance differences between countries, we separately collected information on legal regimes, based on LaPorta et al. (1997, 2008) and obtained from the World fact book at http://www.nationmaster.com. The MFIs in the dataset are a mixture of NGOs, cooperatives and banks. Table 2 provides the distribution of MFIs by type and geographical location (country).

Table 2 MFI by country and type

Name of the country	Type of MFI			Total
	NGOs	Cooperatives	Banks	
Albania	0	0	3	3
Argentina	0	0	1	1
Armenia	2	0	1	3
Benin	4	2	2	8
Bolivia	13	0	2	15
Bosnia	11	0	0	11
Brazil	11	1	1	13
Bulgaria	0	1	1	2
Burkina Faso	0	3	1	4
Cambodia	1	0	11	12
Chile	0	1	1	2
Colombia	6	0	0	6
Dominican Republic	3	0	1	4
Ecuador	8	8	0	16
Egypt	5	0	0	5
El Salvador	2	0	2	4
Ethiopia	0	0	10	10
Georgia	6	0	0	6
Guatemala	5	0	0	5
Haiti	2	0	0	2
Honduras	5	2	1	8
India	23	4	4	31
Indonesia	1	0	1	2
Jordan	0	0	3	3
Kazakhstan	0	0	4	4
Kenya	3	0	6	9
Kyrgyzstan	1	1	1	3
Madagascar	0	1	1	2
Mali	2	1	0	3
Mexico	9	1	6	16
Moldova	0	0	2	2
Morocco	6	0	0	6
Nicaragua	9	1	2	12
Pakistan	1	0	0	1
Paraguay	0	0	1	1
Peru	14	3	12	29
Philippines	6	1	0	7
Romania	0	0	1	1
Russia	4	10	1	15
Senegal	0	9	1	10
South Africa	1	0	2	3

Table 2 continued

Name of the country	Type of MFI			Total
	NGOs	Cooperatives	Banks	
Sri Lanka	1	0	0	1
Tanzania	3	0	1	4
Togo	1	2	0	3
Trinidad and Tobago	0	0	1	1
Tunisia	1	0	0	1
Uganda	4	0	6	10
Montenegro	1	0	1	2
Cameroun	0	1	4	5
Guinee	0	0	1	1
East Timor	0	0	1	1
Bangladesh	1	1	0	2
Nepal	2	0	3	5
Vietnam	1	0	0	1
Azerbaijan	0	0	6	6
Mongolia	0	0	2	2
Nigeria	2	0	1	3
Mozambique	0	0	1	1
Tajikistan	5	0	2	7
Croatia	1	0	0	1
Chad	0	1	0	1
Rwanda	0	1	3	4
Zambia	0	0	1	1
China	1	0	0	1
Serbia	1	0	0	1
Ghana	3	0	0	3
Malawi	0	0	1	1
Gambia	1	0	0	1
Kosovo	1	0	3	4
Congo Braz.	1	0	0	1
Burundi	0	1	0	1
Niger	0	1	1	2
DRC-Kinshasa	0	1	0	1
Total 73	195	59	125	379

Since our data is not self-reported, we find it reasonable to assume that the sample selection bias is minimal and that the sample consists of several random samples of the governance and performance of MFIs. We do, however, recognize that not all MFIs are represented in this dataset. Large numbers of small financial cooperatives and NGOs, for example, are not included. However, we do think this dataset helps in bringing a global picture of what is happening generally in terms of stakeholder representation and its influence on the governance and performance of MFIs.

3.2 Model and variables

We use two models to estimate board structure and performance, respectively. Model 1 looks at board structure and has two dependent variables: *board size*, measured as the logarithm of the number of board members and *CEO duality*, which is a binary variable (=1 if the CEO is also the board chair or 0 otherwise). Because of dual objectives of MFIs, we also develop a performance model (Model 2) whose dependent variables are social and financial performance. There are several performance variables proposed in the microfinance literature (Rosenberg 2009) but, in accordance with our hypotheses, we concentrate on those variables we consider to be of most interest to stakeholders. The financial performance variables used are *portfolio yield*, measured as the inflation-adjusted ratio of interest and revenues to the MFI's loan portfolio, and *financial self sustainability*, measured as the ratio of subsidy-adjusted financial revenue to total expenses. The social performance variables are the *number of customers* measured the logarithm of the total number of customers served by the MFI; and looks at the breadth of outreach of the MFI. And *average loan*, measured as logarithm of average loan each borrower receives; and is concerned with the depth of the outreach, a measurement of the customers' poverty level (Schreiner 2002).

The presence of stakeholders on boards is measured as a series of binary variables, denoting whether there is a *donor* (yes = 1), *customer* (yes = 1); *employee* (yes = 1) or *creditor* (yes = 1) on the board. We also have a binary variable for whether there is *any-stakeholder* on the board (yes = 1) and, to deal with interactions between stakeholders, we have binary variables denoting whether the board has both *employee and customer* (yes = 1) and both *donor and creditor* (yes = 1). To control for variations among and within MFIs, countries and regions, we include a number of control variables (Mersland et al. 2011). MFI control variables are s*ize*, measured in terms of logarithm of assets possessed by the MFI, *age*, measured as the number of years in operation, *regulation* by central bank authorities (yes = 1), *legal status,* denoting whether the MFI is an independent legal organization (yes = 1) or just a branch of another organization (=0), *ownership type* (binary variables denoting whether or not the organization is a NGO, bank, or cooperative, respectively) and whether the MFI was *internationally initiated* (yes = 1).

Among the country and region-specific variables included is *competition.* This variable is constructed from the MFI's information provided to the rating agencies, and from the agencies' independent judgment of the MFI's competitive situation relative to other MFIs in the country. The higher the score on a scale of one to seven, the stronger the competition. Also included are *regional* binaries for countries in Latin America, Asia, Africa south of the Sahara, Eastern Europe and the Middle East. As far as we know, we are also the first to include LaPorta et al.'s (1997, 2008) *legal regimes* variable (company laws), which denotes countries that follow French law, English law, Socialist and Germany law in the list of country's governance variables. The models are given by the following equations:

$$\text{Model 1 : Board structure} = \text{f}\left(\text{stakeholders} + \text{MFI control variables} + \text{country control variables} + \text{regional dummies} + \text{legal regimes} + \text{time dummies}\right)$$

$$\text{Model 2 : Performance} = \text{f}\left(\text{stakeholders} + \text{MFI control variables} + \text{country control variables} + \text{regional dummies} + \text{legal regimes} + \text{time dummies}\right)$$

3.3 Summary statistics

Table 3 shows the summary statistics of the variables used in the analyses. In terms of board structure, the average board size of the MFI is seven members and CEO duality exists in 17% of the MFIs. The inflation-adjusted portfolio yield is 33%. Financial sustainability is a widely-used proxy for long-term organizational sustainability, and the average value of 95% shows that, on average, these MFIs are not financially sustainable after adjusting for subsidies and other MFI-specific factors obtained from the rating agency. On average, the MFIs have 14,978 customers, with a minimum of 24 and a maximum of 513,000 customers. This shows that some of the MFIs have much more outreach than others and this may be attributed to their experience in the market. The average loan size of USD 751 reflects the "micro" aspect of microfinance. 30% of the MFIs have a stakeholder of some kind on their board. 9% have donors, 8% have employees, 18% have customers, and creditors are the least represented, appearing on only 5% of the MFIs' boards. Few of the boards have both customers and employees (7%) and few have both donors and creditors (5%). The MFIs vary in size, with average assets of USD 6 million (Ln 14.58), while the average time in operation is 10.51 years. These size and age statistics show that most of the MFIs are small and young, which justifies the low stakeholder representation, as stakeholders tend to increase with industry growth (Luoma and Goodstein 1999). Most of the MFIs (91%) have been established with their own legal status; 27% are regulated, indicating that regulation and transformation is becoming popular in microfinance industry (Arun 2005). NGOs make up 51% of the whole dataset, banks form 32 and 17% of the MFIs are cooperatives. International influence is high in the industry, with 38% of the MFIs being initiated by international organizations. Average competition pressure is 4.3 which is above the 3.5 middle point of a seven scale. French legal regimes are leading by 59%, followed by English regimes 25%, socialism 13% and German regimes 3%. 29% of the MFIs come from Latin America, 25% from Asia, 24% from Africa south of the Sahara, 18% from Eastern Europe and 4% from the Middle East.

4 Stakeholders' demographics

4.1 Where are stakeholders represented?

Table 4 shows that 22.9% of the stakeholders sitting on boards of the MFIs are donors, of whom 13.3% sit on NGOs. This is expected since most donors support

Table 3 Summary statistics

Variables	Obs.	Mean	SD	Min	Max
Board structure					
Board size	2,673	7.23	3.58	2.00	23.00
Ln board size	2,672	1.87	0.46	0.67	3.14
CEO duality	2,654	0.17	0.59	0.00	1.00
Performance					
Inflation-adjusted portfolio yield	1,020	0.33	0.21	−1.46	1.22
Financial sustainability	701	0.95	0.30	0.10	2.21
Customers	990	14,978	34,517	24.00	513,000
Ln customers	990	8.61	1.43	3.17	13.15
Average loan	1,166	751	1,322	1.00	24,589
Ln average loan	1,166	5.90	1.22	0.04	10.11
Independent variables					
Any-stakeholder	2,428	0.30	0.46	0.00	1.00
Donors	2,335	0.09	0.27	0.00	1.00
Employees	2,349	0.08	0.26	0.00	1.00
Customers	2,296	0.18	0.38	0.00	1.00
Creditors	2,328	0.05	0.16	0.00	1.00
Employees and customer	2,032	0.07	0.38	0.00	1.00
Donors and creditor	2,032	0.05	0.27	0.00	1.00
MFI controls					
Size—Ln assets	1,228	14.58	1.78	0.43	19.33
Age	2,957	10.51	8.14	1.00	85.00
Legal status	2,918	0.91	0.28	0.00	1.00
Regulation	2,921	0.27	0.44	0.00	1.00
NGO	2,032	0.51	0.50	0.00	1.00
Bank	2,032	0.32	0.47	0.00	1.00
Cooperatives	2,032	0.17	0.21	0.00	1.00
Internationally-initiated	2,948	0.38	0.49	0.00	1.00
Country and regional controls					
Competition	2,756	4.29	1.56	1.00	7.00
French countries	2,032	0.59	0.49	0.00	1.00
English countries	2,032	0.25	0.43	0.00	1.00
Socialist countries	2,032	0.13	0.32	0.00	1.00
Germany countries	2,032	0.03	0.17	0.00	1.00
Region Latin America	2,032	0.29	0.45	0.00	1.00
Asia	2,032	0.25	0.44	0.00	1.00
Region Africa South	2,032	0.24	0.43	0.00	1.00
Region EECA	2,032	0.18	0.39	0.00	1.00
Region MENA	2,032	0.04	0.19	0.00	1.00

Table 4 Stakeholders in different types of MFIs

	% NGO	% Coop	% Bank	Total %
Donors	13.30	0.00	9.60	22.90
Employees	9.20	4.40	7.70	21.30
Customers	6.70	36.50	3.20	46.40
Creditors	2.90	0.00	6.50	9.40
Total	32.10	40.90	27.00	100.00

NGOs with not-for-profit objectives and are interested in being on boards in order to monitor the use of their funds (Alonso et al. 2009). Interesting, no donors sit on cooperative boards. This is at odds with the fact that the United Nations General Assembly has declared the year 2012 as "The International Year of Cooperatives". Why then are cooperatives not popular among microfinance donors?

21.3% of the stakeholders sitting on boards are employees and more of these sit on NGO boards than on other types of MFIs. Since employees provide inside information, NGOs can benefit from this. It is argued that the cost of having employees on boards is that they are not good monitors since it is difficult to monitor one's bosses (Osterloh and Frey 2005). Having both donors and employees on the boards of NGOs may be beneficial because donors monitor and employees provide information. We find customers to be most present on the boards of cooperatives and also the most well represented of all the stakeholder types. This is not surprising given that cooperatives are customer-owned MFIs. However, we also find customers to be represented on the boards of NGOs and banks, which indicates their importance. Creditors are the least represented on MFI boards and generally they sit on banks' boards. Taken together, we argue that stakeholder representation is a result of MFI type.

4.2 Are MFIs with stakeholders different?

Does stakeholder representation influence board structure and MFI performance? Table 5 provides t-test results for boards including at least one stakeholder and those without any.

Boards with stakeholders are larger than boards without them. This confirms the previous literature, which argues that board size grows with the number of stakeholders (Hillman et al. 2001). Portfolio yield is used as a proxy for MFI interest income in relation to their loan portfolio and it shows that MFIs with stakeholders on their boards charge less than their counterparts. This could indicate that stakeholders push for low interest rates, but since this is only a univariate it may also be the result of these MFIs having a larger size. We also find evidence of significant differences for financial sustainability, in that MFIs with stakeholders on their boards are more sustainable. In fact, MFIs with stakeholders on their boards have higher average loans, which is better for sustainability but worse for social performance. This result indicates that there is a trade-off between servicing the poor and ensuring good financial results (Hermes et al. 2011). In unreported results,

Table 5 Differences between boards with and without stakeholders

	Mean-with Stk.	Mean-without Stk.	*t* test diff
Board structure			
Board size	8.70	6.90	1.80*
Duality	0.15	0.16	0.01
MFI Performance			
Adjusted portfolio yield	0.26	0.35	0.09*
Financial self-sustainability	1.00	0.90	0.10*
Number of customers	15,738.00	13,929.00	1,808.00
Average loan	1,003.00	752.00	251*

* denote significance at 0.01 levels

we run the t-test for each type of stakeholder and obtain similar results to those shown in Table 5. These preliminary analyses illustrate that stakeholders make a difference to MFIs, both in terms of board structure and performance.

We now look at the relation between six MFI characteristics (size, age, regulation, legal status, MFI type and internationally-initiated) and stakeholder representation. The justifications for examining these characteristics are as follows: Corporate literature suggests that, as organizations become older and larger, the need for stakeholder inclusion increases, since this improves organizations' access to resources (Luoma and Goodstein 1999). Furthermore, the microfinance industry has a great deal of international influence (Mersland et al. 2011) and this may relate to the inclusion of stakeholders on boards. Lastly, there has been a move for MFIs globally to transform and become regulated by central banking authorities (Hartarska and Nadolyank 2007) and this has an impact on who sits on boards. We test these relations using probit regression methods in which the dependent variables are the stakeholder binaries defined earlier. The results are shown in Table 6.

Table 6 Stakeholders and MFI characteristics

Variable	Any-stakeholder	Donor	Employee	Customer	Creditor
Size	0.05**	0.022	0.06	0.12**	0.11
Age	−0.01	−0.06*	0.01	−0.01	−0.04
Regulation	−0.20	0.12	−0.09	−0.45**	−0.73*
Legal status	0.53**	−0.08	−0.01	0.05	0.03
NGO	−2.11	5.36	−0.16	−3.09	4.67
Bank	−2.13	5.16	−0.11	−3.15	5.39
Int. initiative	0.43*	0.87*	0.29*	0.30**	0.24
Pseudo R^2	0.27	0.16	0.12	0.47	0.14

Probit regressions—regional and time dummies are included. *, ** denote statistical significance at 1% and 5%

Large MFIs are more likely to include stakeholders on their boards than smaller ones. These stakeholders seem to be mainly customers, since only customers are significantly associated with large MFIs. We also find that younger MFIs have donors on their boards. This justifies Schreiner's (2002) notion that donors are genetic engineers controlling the evolution of MFIs. They sit on boards when MFIs are young, and later leave them to operate independently. Contrary to Luoma and Goodstein (1999), we find evidence that regulations do not attract stakeholders onto boards, which is probably because regulators often do not allow members without technical banking knowledge to be included on MFI boards.

MFIs with their own legal status include more stakeholders on their boards. It is remarkable that the characteristic of being internationally-initiated is both statistically and economically significantly related to most types of stakeholders. Mersland et al. (2011) show a positive relation between international initiatives and MFIs' social performance. We therefore argue that internationally-initiated MFIs have better performance, caused by, among other things, the inclusion of stakeholders on their boards.

5 Stakeholders and board structure

Do stakeholders influence MFI board structure? Organizations need board structures that allow their boards to be efficient in performing their roles (Linck et al. 2008). Here we run regressions between board structure variables, as dependent variables, and stakeholders on boards, as independent variables. We do so by including each stakeholder variable into the regression, and running pooled OLS regressions for board size and probit regressions for CEO duality. Table 7 gives the results, with panel A showing those relating to board size and panel B those for CEO duality.

Generally, the results show that stakeholders matter when it comes to which structure the board adopts. Panel A shows that donors are associated with small boards, which provides support for the argument that they require a high level of monitoring. As hypothesized, the presence of employees on boards is significantly associated with larger boards. Since large boards are a source of resources, and employees possess unique information, we argue that their board participation is beneficial. We also show evidence that funders, both donors and creditors, are associated with small boards. This implies that funders prefer small boards because it allows them to carry out better CEO monitoring (Yermack 1996).

Panel B shows that, generally, stakeholders are positively associated with CEO duality. This has two implications. First, it is possible that the CEO invites stakeholders onto the board, so that they will remain loyal to him or her and select him or her to chair the board as well. Or, it is possible that stakeholders opt for duality because they want to avoid dealing with multiple sources of authority and responsibilities (Finkelstein and D'aven 1994). We find donors to be significantly associated with non-duality. This relates to the agency argument; the CEO is the donors' agent and so they want to monitor him or her.

Surprisingly, customers and creditors are both associated positively with duality. Customers, we argue, want their interests to be heard, planned for and implemented

Table 7 Stakeholders and board structure

Panel A: Ln board size							
Independent variable							
Any-stakeholder	0.043						
Donor		−0.109***					
Employee			0.192*				
Customer				−0.044			
Creditor					0.051		
Employee and customer						0.052	
Donor and creditor							−0.088**
Control variables							
Size	0.018*	0.018*	0.017*	0.019*	0.019*	0.028*	0.029*
Age	−0.001	0.001	0.000	0.000	−0.001	−0.001	−0.001
Legal status	−0.203*	−0.235*	−0.192*	−0.241*	−0.237*	−0.214*	−0.209*
Regulation	0.044	0.053	0.043	0.061	0.062	0.092	0.088
Int. initiative	0.091*	0.139*	0.095*	0.122	0.116*	0.097*	0.106*
NGO	0.018	−0.036	0.001	−0.056	−0.018	0.068	0.041
Bank	−0.217*	−0.260*	−0.247*	−0.285*	−0.262*	−0.177*	−0.206*
Competition	−0.065*	−0.062*	−0.072*	−0.064*	−0.069*	−0.060*	−0.062*
Obs.	854	788	827	812	817	1012	1012
R^2	0.271	0.299	0.283	0.278	0.277	0.242	0.244
Panel B: CEO duality							
Independent variable							
Any-stakeholder	0.299***						
Donor		−0.836*					
Employee			−0.316				
Customer				0.472***			

Table 7 continued

Creditor					1.419*		
Employee and customer						1.011*	
Donor and creditor							−0.026
Control variables							
Size	0.207*	0.231*	0.206*	0.194*	0.217*	0.206*	0.205*
Age	−0.049*	−0.567*	−0.037*	−0.051*	−0.052*	−0.035*	−0.037*
Legal status	0.223	0.233	−0.060	0.215	0.179	−0.166	−0.059
Regulation	−0.488*	−0.431**	−0.482*	−0.457**	−0.351**	−0.470*	−0.481*
Int. initiative	−0.537*	−0.447*	−0.652*	−0.459*	−0.544*	−0.744*	−0.648*
NGO	−0.164	−0.165	−0.381	0.112	−0.244	0.412***	−0.377
Bank	0.005	−0.174	−0.208	0.245	−0.260	0.638**	−0.205
Competition	−0.005	−0.035	−0.042	0.007	0.001	−0.041	−0.043
Obs.	793	765	945	753	761	945	945
Pseudo R^2	0.139	0.147	0.121	0.131	0.153	0.154	0.121

OLS regressions—legal regimes, regional and time dummies are included. *, **, and *** denote statistical significance at the 1, 5, and 10% levels

by one person so as to avoid multiple responsibilities. However, we expected creditors, as funders, to opt for non-duality. This positive association could be a result of creditors wanting to hold just one person responsible for their loans. However, this finding might also be a result of the few observations we have of creditors sitting on boards. Regarding interactions among stakeholders, we find a positive association between duality and the presence of both employees and customers on a board. As internal and external customers, respectively, the results suggest that they opt for duality in order to have one central authority and ease of operation under one boss (Rechner and Dalton 1991).

The MFI control variables show significant results in both panels. Larger MFIs have larger boards as evidenced previously (Adams and Ferreira 2009) and are associated with duality. MFIs with independent legal status prefer small boards. This is not surprising since, when MFIs are subsidiaries of other organizations, they belong to larger, multi-purpose NGOs or large banks, and this leads to large boards. We also see that MFIs with international initiators have large boards and non-duality. This is expected given that international actors are probably more familiar with governance codes, which recommend non-duality. Regulated MFIs are associated with non-duality; this is often a legal and regulatory requirement for such institutions. For more checks, we run a board structure model with board gender diversity but the results were not interesting because of the few observations we have on this variable. We therefore choose not to report them.

Taken together, we find that stakeholders matter for the type of board structure put in place by MFIs. This influence may bring different levels of performance for MFIs. This is examined in the next section.

6 Stakeholders and performance

Does the presence of stakeholders on boards affect MFI performance? Before we run this model, we need to check for endogeneity. It is possible that, instead of stakeholders influencing performance, it is performance that leads stakeholders to sit on boards. Another endogeneity concern is that we might have omitted some unobservable variable that affects both stakeholders and performance variables (Adams and Ferreira 2009). For example, some MFIs may be more progressive than others, and thus have more stakeholders and better performance than others. This effect could lead to spurious correlations among variables, and so we have to control for it (Adams and Ferreira 2009). We address these problems by means of instrumental variables (Wooldridge 2006).

In Section 4 we gave evidence that the number of stakeholders sitting on boards is greater in internationally-initiated MFIs. Also, MFIs are normally established either as part of a multipurpose NGO or with their own legal status in a given country. This has an implication on who sits on the board. If the MFI has its own legal status, it has more power to choose which stakeholders can sit on its board than when it is a branch of another organization. Finally, MFIs come in various types: NGOs, cooperatives and banks. As previously evidenced, MFI type has an implication on stakeholder representation. Thus, we use internationally-initiated,

legal status and MFI type as instruments. We conducted a Durbin-Wu Hausman test (Hausman 1978) and observed that there are endogeneity problems (unreported results). Then, we ran a two-stage linear regression (2SLS), including three instruments and other control variables, for each stakeholder variable individually. Table 8 reports the results for financial performance.

Panel A shows the results for the adjusted portfolio yield. Generally, stakeholders on a board are associated with low interest returns. We show evidence that the presence of any-stakeholder, of customers, and of both employees and customers are all negatively associated with portfolio yield. This means that customers fight for lower interest rates. However, we show evidence that donors and creditors push for higher yields. This means that funders want to see MFIs get higher returns in order, in the first case, for donors to eventually withdraw their support, and in the second, for creditors to be repaid.

Panel B shows that stakeholders on boards are associated with higher financial sustainability. This means that when stakeholders sit on boards, they monitor and give resources that are necessary for MFIs to be sustainable. We find positive significance results in the case of the presence of any-stakeholder, of donors, of customers and of both donors and creditors.

These results give support to several hypotheses. The presence of any type of stakeholder on a board is partially supported, since they bring positive financial sustainability but a negative portfolio yield. Contrary to Hartarska and Mersland (2009), we find better financial performance for MFIs with donors on their boards. This means that donors like to fund, assist and advise MFIs that show a credible track record of financial performance. This enables donors to withdraw their support at a later stage, as suggested by Schreiner (2002).

Similarly to the findings of Hartarska (2005), our results provide support for the presence of an association between customers on boards and financial performance. Though customers bring negative yields, they are positively associated with financial sustainability. A similar result is found when both employees and customers are on the board. This means that customers push for lower interest rates but not to such a level that prevents the MFI from being sustainable. From pushing for low interest levels, it means that customers on boards also induce lower costs for MFIs. The results also support the notion that, in microfinance, employees and customers work closely together (Mori 2010; Batillana and Dorado 2010). Furthermore, we find support for the influence of funders—donors and creditors on boards. They are both associated with better financial performance.

These results indicate that stakeholders push down MFI costs, and to further check this we run additional regressions (not reported) to see how stakeholders influence costs. We find that stakeholder presence has negative associations with operational costs, specifically in the case of any type of stakeholder, customers and both employees and customers. Thus, the presence of stakeholders on boards leads to lower MFI costs.

Table 9 shows the results for social performance. Panel A shows the results for the relation between the presence of stakeholders and the number of customers (the breadth of outreach). Here, we find that donors are associated with a higher number of customers and therefore better social performance. The relation is also significant

Table 8 Stakeholders and financial performance

Panel A: Inflation-adjusted portfolio yield							
Independent variable							
Any-stakeholder	−0.155*						
Donor		0.453*					
Employee			2.003				
Customer				−0.125*			
Creditor					0.875		
Employee and customer						−0.157*	
Donor and creditor							0.492*
Control variables							
Size—Ln (Assets)	−0.005	−0.009	−0.023	−0.008	−0.010	−0.000	−0.003
Age	−0.004*	−0.005*	−0.009**	−0.005*	−0.051*	0.005*	−0.005*
Regulation	−0.041*	−0.043**	−0.019	−0.049**	−0.021	−0.048*	−0.037**
Competition	−0.008*	−0.003	−0.018	−0.007	−0.003	−0.004	−0.007
Instruments	Internationally-initiated; legal status; MFI type						
Obs.	790	760	766	745	759	862	862
R^2	0.109	0.129	0.111	0.119	0.108	0.141	0.104
Panel B: Financial sustainability							
Independent variable							
Any-stakeholder	0.093**						
Donor		0.273**					
Employee			−0.288				
Customer				0.134***			
Creditor					−1.258		
Employee and customer						0.039	
Donor and creditor							0.120**

Table 8 continued

Control variables							
Size—Ln (Assets)	0.022**	0.030*	0.034*	0.035*	0.037*	0.037*	0.045*
Age	−0.002	−0.000	−0.002	−0.001	−0.004**	−0.004**	−0.004***
Regulation	0.044	0.037	0.062***	0.019	0.035	0.062**	0.069
Competition	0.027*	0.030*	0.029*	0.036*	0.024***	0.027*	0.016
Instruments	Internationally-initiated; legal status; MFI type						
Obs.	560	542	544	530	541	636	636
R^2	0.138	0.162	0.139	0.137	0.088	0.129	0.108

SLS regression—legal regimes, regional and time dummies are included in all regressions. *, **, and *** denote statistical significance at the 1%, 5%, and 10% levels

Table 9 Stakeholders and Social performance

Panel A: Ln customers							
Independent variable							
Any-stakeholder	0.246						
Donor		3.646*					
Employee			0.252				
Customer				−0.299***			
Creditor					0.948		
Employee and customer						−0.078	
Donor and creditor							2.983*
Control variables							
Size—Ln (Assets)	0.459*	0.434*	0.559*	0.463*	0.454*	0.505*	0.491*
Age	0.015*	0.034*	0.014	−0.023*	0.023*	0.013**	0.021*
Regulation	−0.226**	−0.282**	0.089	0.225**	−0.231**	−0.085	−0.109
Competition	0.041	0.080**	0.005	0.017	0.045	0.003	0.037
Instruments	Internationally-initiated; legal status; MFI type						
Obs.	741	724	716	706	720	691	692
Wald X^2	38.46*	21.59*	46.56*	38.83*	38.37*	47.11*	29.24*
Pseudo R^2	0.488	0.108	0.534	0.505	0.492	0.496	0.178
Panel B: Ln average loan							
Independent variable							
Any-stakeholder	0.984*						
Donor		−4.558*					
Employee			−6.827				
Customer				1.115*			
Creditor					−3.864**		
Employee and customer						1.172*	

Table 9 continued

Donor and creditor							−4.677*
Control variables							
Size—Ln (Assets)	0.161*	0.189*	0.208*	0.159*	0.177*	0.166*	0.198*
Age	−0.001	−0.009	−0.012	−0.005	−0.002	−0.003	−0.003
Regulation	0.419*	0.357*	0.357**	0.433*	0.350*	0.388*	0.285*
Competition	0.086*	0.004	0.105**	0.106*	0.036	0.109*	0.028
Instruments	Internationally-initiated; legal status; MFI type						
Obs.	852	819	827	805	818	744	744
R^2	0.354	0.276	0.182	0.456	0.139	0.377	0.277

SLS regression—legal regime, regional and time dummies are included in all regressions. *, **, and *** denote statistical significance at 1%, 5%, and 10%

when both donors and creditors are on the same board. As funders, it could be that these types of stakeholder monitor and advise in a way that leads to more customers. Alternatively, by having greater inside information, possibly these funders provide additional funding, allowing the MFI to serve more customers. Interestingly, but not surprisingly, we find that boards that include customers (who represent the existing customers), are associated with fewer customers. This means that customers serving on boards monopolize services for a few people.

Panel B provides the results relating to average loan size. A lower average loan means higher social performance as poor customers normally take out small loans (Hermes et al. 2011). We find a positive association between the presence of any type of stakeholder and average loan size. However, the presence of donors, creditors and both donors and creditors on the same board are all associated with low average loans, while customers and both employees and customers on the same board are associated with high average loans. Again, we find support for the positive effect of donors on social performance. Most donors have a social mission of serving the poor; therefore, when they are on a board, they try to monitor and advise the organization in such a way that meets their objectives. Creditors are shown to be socially beneficial and associated with low average loans. This is surprisingly, as it may appear that creditors would prefer the organizations to provide higher and more profitable loans. However, since most creditors in microfinance also have a social mission, they are likely to push for greater outreach to the poor (Rhyne 2005). We also show that customer representation is associated with high average loans. The results are similar when both employees and customers are represented on the same boards. It appears that the presence of customers on boards leads to lower social performance by encouraging MFIs to concentrate on giving higher loans to fewer, less poor customers.

For the control variables, Tables 8 and 9 show that large MFIs are associated with lower social and high financial performance. Since large MFIs can source more funding, they are able to reach more customers, offer higher average loans, make greater profits and become more financially sustainable. We also observe that regulated MFIs offer higher average loans and serve fewer customers than non-regulated ones. This is consistent with the literature that suggests that, as MFIs transform, they begin to work more with fewer and less poor customers in order to adhere to regulatory requirements (Hartarska and Nadolyank 2007).

In summary, these results show that stakeholders are beneficial for MFIs and for those stakeholders represented on the boards (Labie and Mersland 2011). Donors bring better social and financial performance. Customers on boards produce lower costs, better sustainability and lower social performance. We do not find evidence that the presence of employees on boards affect performance, but when both employees and customers are on the same board, they push for low costs, low interest rates and advocate larger loans. This is good for employees, since low interest rates bring in more customers and larger loans which are more profitable for the MFI and provide better incomes to the employees. When creditors sit alone on boards, they do not provide much benefit to MFIs. However, when they serve on the same boards as donors, they become beneficial and lead to better financial and social

performance. It appears, as funders, they can work better together, than when each operates individually.

7 Conclusions

This paper responds to the call for research into a deeper understanding of stakeholders in MFIs (Labie and Mersland 2011). Using a global dataset, we have shown relationships between stakeholders and MFI characteristics (size, age, regulation, legal status, MFI type and international initiation), board structure (size and CEO duality) and performance (financial and social). We used a mixture of techniques in the analysis. For MFI characteristics and board structure variables, we used OLS regressions and probit regressions. To tackle endogeneity concerns, we used a 2SLS regression with instrumental variables to analyze the relation between stakeholders and performance.

We find stakeholders to be represented differently in different MFI types. Donors and employees are more on the boards of NGOs, creditors on those of banks and customers on those of cooperatives. We further find stakeholders to be associated with larger and internationally-initiated MFIs. Stakeholders show their interests by having different influences on board structure and performance. Donors are strict in monitoring (Yermack 1996) and we find them to be associated with small boards, non-duality and better performance. Similar findings are obtained when boards contain both donors and creditors. Employees, as resource providers, are found to be associated with large boards. Customers are associated with duality, better financial performance but low social performance. Similar evidence is seen when customers interact with employees on boards.

It is interesting that donors and creditors are associated with better performance in all cases. This implies that funders are beneficial to MFIs, as advocated by policy papers (CGAP 2009; Rhyne 2005). The practical implication of this is that donors and creditors should take a more active role in their partnerships with MFIs. Our finding that few donors, and particularly creditors, sit on MFI boards should motivate a reorientation among microfinance funders. They should sit on MFI boards more often. Donors and creditors should not just fund, they should monitor and provide other resources. Particularly, as the number of MFI creditors is rapidly increasing in the industry (http://www.mixmarket.org), there is a need for more research on their role and their influence on MFIs.

Despite the fact that customers bring lower social performance to MFIs, they are beneficial in terms of pushing for low costs, while at the same time allowing MFIs to be sustainable. Most MFIs have high costs of operations and this means that customers can be beneficial in campaigns to reduce MFI costs. However, the finding that the presence of customers on boards leads to lower social performance should be subject of new research. To what extent are the existing MFI customers, hindering further outreach by microfinance services?

A limitation of our study is that only four types of stakeholder are included. Future research could examine more types, specifically those not sitting on boards. How, for example, do rating agencies and local communities (Mersland in press)

influence MFIs? Finally, the findings that cooperative MFIs do not have donors on their boards and that customers sitting on the boards of cooperative MFIs have a negative influence on their social performance merit further study, especially since 2012 is to be the UN's Year of Cooperatives.

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